Thembelihle Local Municipality
Financial statements
for the year ended 30 June 2020
Auditor General

Thembelihle Local Municipality
(Registration number NC076)
Financial Statements for the year ended 30 June 2020

General Information

Legal form of entity	South African category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act No 117 of 1998). Municipal demarcation code NC076
Nature of business and principal activities	Provision of Municipal services in terms of the Municipal Finance Management Act No.56 Of 2003 and Municipal Systems Act No.32 of 2000.
Mayoral committee	
Executive Mayor	Mpamba, B
Councillors	Swartling, S Tshangela, B Tallies, J Ngxabazi, R Britz, HL Naude, PM
Grading of local authority	The Thembehlihla Municipality is a grade 2 Local Authority in terms of items of Government Notice R999 of 2 October 2001, Published in terms of the Remuneration of public Office Bearers Act, 1998
Accounting Officer	Jack, MR
Chief Finance Officer (CFO)	Shuping, R
Registered office	Municipal Offices Church street Hopetown 8750
Business address	Municipal Offices Church street Hopetown 8750
Postal address	Private Bag X3 Hopetown 8750
Bankers	Standard Bank Limited (Primary)
Auditors	Auditor General
Attorneys	Herman van Heerden Inc

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality's operations depend on a number of sources of revenue ranging from National Government to its own sources and donations for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, the fair presentation of the financial statements have been audited by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors.

The financial statements set out on page, which have been prepared on the going concern basis, were approved by the accounting officer on 30 October 2020 and were signed on its behalf by:

Mr. MR Jack
Accounting Officer

Thembelihle Local Municipality

(Registration number NC076)
Financial Statements for the year ended 30 June 2020

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The municipality is engaged in provision of municipal services in terms of the Municipal Finance Management Act no.56 of 2003 and Municipal Systems Act no.32 of 2000 and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 29 551 254 (2019: deficit R 4 038 605).

Proportion of income to total revenue attributable to various classes of business:

2020

Classes of business	Proportion of contribution to income before tax	Other informative information
Property rates	6 %	4 402 334
Services Chargers	25 %	18 466 562
Grants and subsidies	62 %	45 594 798
Other	7 %	4 043 443
Total	- %	72 507 137

2019

Classes of business	Proportion of contribution to income before tax	Other informative information
Property rates	4 %	4 035 707
Services Chargers	25 %	21 701 936
Grants and Subsidies	67 %	60 897 668
Other	4 %	3 437 157
Total	- %	90 072 468

2. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

The municipality still has power to levy rates and taxes and it will continnue to receive funding from goverment as evident from the equitable share allocation in terms of the Division of Revenue Act of 2020.

3. Subsequent events

Government had declared a National State of Disaster from the month of March 2020 as a result of the Coranovirus pandemic (COVID-19) which had affected everyday lives of ordianary citizens across the world. The South African economy had to be put on hold (lockdown) in order to curb the spread of the deadly COVID-19 disease which in turn resulted in loss of jobs for ordinary citizens as well as loss of income to businesses in the formal sector due to the strict measures put in place by government. The lock down had extended beyond the financial year end which had also negaively impacted on the operations of the municipality resulting in loss of revenue an a decrease in grant allocations due to Government reprioritizing funds to address the COVID-19 disease. As a result, the municipality had incurred a net deficit for the year.

4. Accounting Officer's interest in contracts

The accounting officer had no interest in contracts during the year.

Accounting Officer's Report

5. Accounting policies

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board and in accordance with section 122 (3) of the Municipal Financial Management Act, (Act No. 56 of 2003).

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality	Appointed
Mr. MR Jack	South African	Appointed Thursday, 02 November 2017

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Council

The Council:
- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

Remuneration

The upper limits of the remuneration of the councillors, are determined in terms of the Government Notices issued by the Minister of Co-operative Governance and Traditional Affairs, as required by him by the Remunerations of Public Office Bearers Act No.20 of 1998.

Committee meetings

The accounting officer meets on a regular basis with the Mayor and Chairpersons of Portfolio Committees.

Portfolio Committee Chairpersons have access to all members of management (Section 57 Managers) of the municipality.

Internal audit

The municipality has a shared internal audit function based at the district municipality (as highlighted above). This is in compliance with the Municipal Finance Management Act, 2003.

8. Bankers

The municipality's primary banker is Standard Bank Limited

9. Auditors

The Auditor General of South Africa will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 * Restated
Assets			
Current Assets			
Inventories	3	39 722	41 906
Receivables from exchange transactions	4&7	3 522 163	3 472 560
Statutory receivables from non-exchange transactions	5&7	2 321 084	2 041 559
VAT statutory receivable	17	3 182 341	9 438 420
Prepayments		17 460	17 460
Other Receivables	8	595 416	595 416
Cash and cash equivalents	9	37 013	4 352 317
		9 715 199	**19 959 638**
Non-Current Assets			
Investment property	10	21 075 677	20 867 009
Property, plant and equipment	11	247 600 081	250 131 326
Intangible assets	12	26 652	53 952
Non current receivables from exchange transactions	13	703 543	420 003
		269 405 953	**271 472 290**
Total Assets		**279 121 152**	**291 431 928**
Liabilities			
Current Liabilities			
Loans payable	14	767 827	559 312
Finance lease obligation	15	817 192	744 200
Payables from exchange transactions	16	109 644 201	91 673 232
Consumer deposits	18	647 657	624 460
Employee benefit obligation	19	254 000	236 344
Unspent conditional grants and receipts	20	1 499 678	5 010 415
Provisions	21	11 664 614	8 797 416
Third party collections	22	744 454	630 611
Long service awards	23	177 000	262 296
Bank overdraft	9	2 786 097	1 761 688
		129 002 720	**110 299 974**
Non-Current Liabilities			
Loans payable	14	2 135 226	2 904 618
Finance lease obligation	15	1 675 436	2 503 196
Employee benefit obligation	19	4 722 999	4 729 246
Long service awards	23	1 415 000	1 273 869
		9 948 661	**11 410 929**
Total Liabilities		**138 951 381**	**121 710 903**
Net Assets		**140 169 771**	**169 721 025**
Accumulated surplus		140 169 771	169 721 025

* See Note 51

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 * Restated
Revenue			
Revenue from exchange transactions			
Service charges	25	18 466 562	21 701 936
Rental of facilities and equipment	26	415 620	332 182
Interest received - consumers	27	1 521 669	1 164 520
Licences and permits	28	79 166	160 584
Commissions received	29	1 060 523	186 688
Other income	30	146 106	768 459
Connection fees	31	17 683	46 994
Interest received - investments	27	302 196	499 778
Total revenue from exchange transactions		**22 009 525**	**24 861 141**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	32	4 402 334	4 035 707
Licences or Permits (Non-exchange)	28	92 395	62 080
Informal Settlement rates		1 385	4 522
Transfer revenue			
Government grants & subsidies	33	45 594 798	60 897 668
Fines, Penalties and Forfeits	34	406 700	211 350
Total revenue from non-exchange transactions		**50 497 612**	**65 211 327**
Total revenue	24	**72 507 137**	**90 072 468**
Expenditure			
Employee related costs	35	(31 312 549)	(29 077 263)
Remuneration of councillors	36	(2 578 205)	(2 448 635)
Administration	37	(145 388)	(79 249)
Depreciation and amortisation	38	(15 836 736)	(17 034 662)
Finance costs	39	(11 250 688)	(8 655 200)
Lease rentals on operating lease		(106 984)	(277 415)
Bad Debt impairment movement	6	(8 461 564)	(8 824 367)
Bulk purchases	41	(11 069 746)	(12 561 894)
General Expenses	42	(21 790 736)	(15 828 472)
Total expenditure		**(102 552 596)**	**(94 787 157)**
Operating deficit		**(30 045 459)**	**(4 714 689)**
Gain/ (loss) on disposal of assets and liabilities		(35 719)	(142 557)
Fair value adjustments	10&43	208 670	210 684
Actuarial gains/losses	19	321 254	607 957
		494 205	**676 084**
Deficit for the year		**(29 551 254)**	**(4 038 605)**

* See Note 51

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	168 955 886	168 955 886
Adjustments		
Prior year adjustments	4 803 744	4 803 744
Balance at 01 July 2018	**173 759 630**	**173 759 630**
Changes in net assets		
Surplus for the year	(4 038 605)	(4 038 605)
Total changes	(4 038 605)	(4 038 605)
Restated* Balance at 01 July 2019	**169 721 025**	**169 721 025**
Changes in net assets		
Surplus for the year	(29 551 254)	(29 551 254)
Total changes	(29 551 254)	(29 551 254)
Balance at 30 June 2020	**140 169 771**	**140 169 771**

* See Note 51

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019
Cash flows from operating activities			
Receipts			
Sale of goods and services		16 103 309	18 269 056
Grants		42 084 061	64 635 316
Interest income		1 823 865	1 664 298
		60 011 235	84 568 670
Payments			
Employee costs		(33 301 789)	(29 827 133)
Suppliers		(6 168 916)	(16 993 186)
Finance costs		(11 250 688)	(8 655 204)
		(50 721 393)	(55 475 523)
Net cash flows from operating activities	44	**9 [redacted] 842**	**29 [redacted] 147**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(13 459 838)	(26 580 885)
Proceeds from sale of property, plant and equipment	11	145 928	7 588
Net cash flows from investing activities		**(13 313 910)**	**(26 573 297)**
Cash flows from financing activities			
Repayment of loans payable		(560 877)	(354 521)
Finance payments		(754 768)	(551 176)
Net cash flows from financing activities		**(1 315 645)**	**(905 697)**
Cash and cash equivalents at the beginning of the year		2 590 630	976 470
Cash and cash equivalents at the end of the year	9	**(2 749 083)**	**2 590 630**

* See Note 51

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue by source						
Property rates	6 421 548	-	**6 421 548**	4 402 334	**(2 019 214)**	Municipality expected to dispose of land which would have increased the collection of Property Rates. However, the disposal was not implemented but it is expected to take place in 2020/21.
Service charges	22 017 723	5 544 732	**27 562 455**	18 466 562	**(9 095 893)**	The municipality could not fully implement the credit control policy during the Covid 19 lockdown period.,
Investment revenue	341 586	1	**341 587**	2 239 485	**1 897 898**	The interest received on the short term investment was more than considered while budget was prepared.
Transfers recognised - operational	63 394 208	(33 665 205)	**29 729 003**	32 362 026	**2 633 023**	Roll over not approved for 2019/20.
Other own revenue	11 063 105	(2 551 676)	**8 511 429**	1 803 958	**(6 707 471)**	The difficult economic times experienced in the 2019/20 financial year had a negative effect on the other revenue generated due to spending of consumers decreasing..

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Total Revenue (excluding capital transfers and contributions)	**103 238 170**	**(30 672 148)**	**72 566 022**	**59 274 365**	**(13 291 657)**	
Expenditure by type						
Employee costs	(31 366 046)	(942 997)	**(32 309 043)**	(31 312 549)	**[redacted] 494**	Funded vacancies not filled.
Remuneration of councillors	(2 780 689)	(139 108)	**(2 919 797)**	(2 578 205)	**341 592**	This is due to the delay in the approval of council remuneration annual increase.
Debt impairment	-	-	-	(8 461 564)	**(8 461 564)**	This is due to the current implementation of Prepaid electricity in Steynville [redacted] well as the implementation of the water metering projects. Completion is expected to be in 2020/21.,
Depreciation & asset impairment	(8 232 616)	-	**(8 232 616)**	(15 836 736)	**(7 604 120)**	This is due to omissions that is included in the current financial year.
Finance charges	(1 806 337)	752 000	**(1 054 337)**	(11 250 687)	**(10 196 350)**	When Municipality signed the agreement with Eskom, the interest was suspended. Due to Cashflow constrains, the Municipality could not held its end of the agreement and therefore the interest was reversed..

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Materials and bulk purchases	(10 579 114)	175 227	**(10 403 887)**	(11 069 746)	**(665 859)**	This is due to agreement made with Eskom, therefore payments has been made on a more regular basis..
Transfers and grants	(3 890 003)	3 890 003	**-**	-	**-**	The budgeted amount was never used.
Other expenditure	(10 054 022)	(3 790 340)	**(13 844 362)**	(22 043 109)	**(8 198 747)**	
Total expenditure	**(68 708 827)**	**(55 215)**	**(68 764 042)**	**(102 552 596)**	**(33 788 554)**	
Surplus	**34 529 343**	**(30 727 363)**	**3 801 980**	**(43 278 231)**	**(47 080 211)**	
Transfers recognised - capital	16 005 565	(1 748 255)	**14 257 310**	13 232 772	**(1 024 538)**	Internally generated revenue used to fund necessary capital acquisitions.
Surplus after capital transfers [redacted] contributions	**50 534 908**	**(32 475 618)**	**18 059 290**	**(30 045 459)**	**(48 104 749)**	
Surplus for the year	**50 534 908**	**(32 475 618)**	**18 059 290**	**(30 045 459)**	**(48 104 749)**	
Statement of Financial Position						
Assets						
Current Assets						
Cash	(2 276 850)	6 628 716	**4 351 [redacted]**	37 013	**(4 314 853)**	This was because of the unspent portions on the grants at year end
Consumer debtors	10 882 244	615 203	**11 497 447**	3 522 163	**(7 975 284)**	Debtors book is continuously increasing therefore payment levels is extremely low and outstanding debt is on the ri
Other debtors	3 575 280	492 702	**4 067 [redacted]**	6 116 301	**2 048 319**	VAT budgeted for as part of consumer debtors, but should form part of debtors.

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Inventory	2 300	39 606	**41 [redacted]**	39 722	**(2 184)**	Unexpected repairs on infrastructure.
	12 182 974	**7 776 227**	**19 [redacted] 201**	**9 715 199**	**(10 244 002)**	
Non-Current Assets						
Long-term receivables	-	420 003	**420 [redacted]**	-	**(420 003)**	
Investments	520 525	(520 525)	-	-	-	
Investment property	8 578 123	12 700 925	**21 279 048**	21 075 677	**(203 371)**	This due to FV adjustments made on IP as well as ommisions included in the current FY
Property, plant and equipment	278 390 842	(36 586 374)	**241 804 468**	247 600 081	**5 795 613**	Variance is below 10%, therefore insignificant.
Intangible	221 972	(168 020)	**53 952**	26 652	**(27 300)**	
Other non-current assets	-	-	-	703 543	**703 543**	
	287 711 462	**(24 153 991)**	**263 557 471**	**269 405 953**	**5 [redacted] 482**	
Total Assets	**299 894 436**	**(16 377 764)**	**283 516 672**	**279 121 152**	**(4 395 520)**	
Liabilities						
Current Liabilities						
Bank overdraft	-	1 761 688	**1 761 688**	2 786 097	**1 024 409**	This is only the amount per the Cashbook which includes amounts not yet paid.
Borrowing	-	559 312	**559 312**	1 585 019	**1 025 707**	This liability was not budgeted for.
Consumer deposits	-	624 460	**624 460**	647 657	**23 197**	
Trade and other payables	319 314	97 739 718	**98 059 032**	111 888 333	**13 829 301**	Due to cash flow and non-payment of Creditiors
Provisions	35 603 443	(26 806 027)	**8 797 416**	12 095 614	**3 [redacted] 198**	An increase in debtors impairment.
	35 922 757	**73 879 151**	**109 801 908**	**129 002 720**	**19 200 812**	
Non-Current Liabilities						
Borrowing	5 259 758	148 056	**5 407 814**	3 810 662	**(1 597 152)**	
Provisions	8 592 763	(2 589 448)	**6 003 315**	6 137 999	**134 684**	An decrease in landfill sites provision was not expected when budget was compiled.

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	13 [redacted] 521	**(2 441 392)**	**11 411 129**	**[redacted] 661**	**(1 462 468)**	
Total Liabilities	**49 775 278**	**71 437 759**	**121 213 037**	**138 951 381**	**17 738 344**	
Net Assets	**250 119 158**	**(87 815 523)**	**162 303 635**	**140 169 771**	**(22 133 864)**	
Community wealth/equity						
Accumulated Surplus/(Deficit)	250 119 158	(87 815 523)	**162 303 635**	140 169 771	**(22 133 864)**	Affected by the prior period error on Assets
Total community wealth/equity	**250 119 158**	**(87 815 523)**	**162 303 635**	**140 169 771**	**(22 133 864)**	

The accounting policies on page and the notes on page form [redacted] integral part of the financial statements.

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Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2020											
Financial Performance											
Property rates	6 421 548	-	6 421 548	-	[redacted]	6 421 548	4 402 334	[redacted]	(2 019 214)	69 %	69 %
Service charges	22 017 723	5 544 732	27 562 455	-	[redacted]	27 562 455	18 466 562	[redacted]	(9 095 893)	67 %	84 %
Investment revenue	341 586	-	341 586	-	[redacted]	341 586	2 239 485	[redacted]	1 897 899	656 %	656 %
Transfers recognised - operational	63 394 208	(33 665 205)	29 729 003	-	[redacted]	29 729 003	32 362 026	[redacted]	2 633 023	109 %	51 %
Other own [redacted]	11 063 105	(2 551 676)	8 511 429	-	[redacted]	8 511 429	1 803 958	[redacted]	(6 707 471)	21 %	16 %
Total revenue (excluding capital transfers and contributions)	**103 238 170**	**(30 672 149)**	**72 566 021**	**-**	[redacted]	**72 566 021**	**59 274 365**	[redacted]	**(13 291 656)**	**82 %**	**57 %**
Employee costs	(31 366 046)	(942 997)	(32 309 043)	-	-	(32 309 043)	(31 312 549)	-	996 494	97 %	100 %
Remuneration of councillors	(2 780 689)	(139 108)	(2 919 797)	-	-	(2 919 797)	(2 578 205)	-	341 592	88 %	[redacted] %
Debt impairment	-	-	-	[redacted]	[redacted]	-	(8 461 564)	-	(8 461 564)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	(8 232 616)	-	(8 232 616)	[redacted]	[redacted]	(8 232 616)	(15 836 736)	-	(7 604 120)	192 %	192 %
Finance charges	(1 806 337)	752 000	(1 054 337)	-	-	(1 054 337)	(11 250 687)	-	(10 196 350)	1 067 %	623 %
Materials and bulk purchases	(10 579 114)	175 227	(10 403 887)	-	-	(10 403 887)	(11 069 746)	-	(665 859)	106 %	105 %
Transfers and grants	(3 890 003)	3 890 003	-	-	-	-	-	-	-	DIV/0 %	- %
Other expenditure	(10 054 022)	(3 790 340)	(13 844 362)	-	-	(13 844 362)	(22 043 109)	-	(8 198 747)	159 %	219 %
Total expenditure	**(68 708 827)**	**(55 215)**	**(68 764 042)**	**-**	**-**	**(68 764 042)**	**(102 552 596)**	**-**	**(33 788 554)**	**149 %**	**149 %**
Surplus/(Deficit)	**34 529 343**	**(30 727 364)**	**3 801 979**	**-**	[redacted]	**3 801 979**	**(43 278 231)**	[redacted]	**(47 [redacted] 210)**	**(1 138)%**	**(125)%**

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Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	16 005 565	(1 748 255)	14 257 310	-	[redacted]	14 257 310	13 232 772	[redacted]	(1 024 538)	93 %	83 %
Surplus (Deficit) after capital transfers and contributions	**50 534 [redacted]**	**(32 475 619)**	**18 059 289**	-	[redacted]	**18 059 289**	**(30 045 459)**	[redacted]	**(48 104 748)**	**(166)%**	**(59)%**
Surplus/(Deficit) for the year	**50 534 908**	**(32 475 619)**	**18 059 289**	-	[redacted]	**18 059 289**	**(30 045 459)**	[redacted]	**(48 104 748)**	**(166)%**	**(59)%**

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 49 Changes in accounting policy.

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade receivables

The calculation in respect of the impairment of trade receivables is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per trade receivable per service.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 21 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that [redacted] denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based [redacted] current market conditions. Additional information is disclosed in Note 19.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Cash [redacted] Cash Equivalents

Cash includes cash on hand (petty cash) and cash with banks (including call deposits). Cash equivalents are short term highly liquid investments that [redacted] readily convertible to [redacted] known amount of cash and are held with registered banking institutions with maturities of three months or less. They are subject to insignificant risk of changes in value.

For purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables. Bank overdrafts are recorded based on the facility used. Finance charges on bank overdrafts are expenses as incurred. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position. Cash and cash equivalents and bank borrowings are subsequently recorded at amortised cost.

1.4 Investment property

Investment property is property (land or [redacted] building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that [redacted] associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from [redacted] change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of [redacted] investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of [redacted] investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Accounting Policies

1.4 Investment property (continued)

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised [redacted] an asset if, and only if,

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and if
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost on its acquisition date or in the case of assets acquired by grants or donations, deemed cost, being the fair value of the asset on initial recognition.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where [redacted] item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or [redacted] combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If [redacted] replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using [redacted] for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing [redacted] of [redacted] item of property, plant and equipment and which meet the recognition criteria above are included as [redacted] replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Accounting Policies

1.5 Property, plant and equipment (continued)

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life - Years
Land		
• Land	Not Applicable	
Buildings	Straight line	
• Improvements		10 - 30
Infrastructure	Straight line	
• Roads & Paving		5 - 80
• Electricity		5 - 50
• Water and sanitation		10 - 100
• Sewerage/ Solid waste		10 - 60
• y		10 - 100
Community	Straight line	
• Community Facilities		30
• Recreational facilities		15 - 30
Other	Straight line	
• Computer Equipment		5 - 10
• Emergency Equipment		10
• Furniture & Fittings		5 - 15
• Motor Vehicles		7 - 15
• Office Equipment		5 - 15
• Plant and Equipment		5 - 15

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Accounting Policies

1.5 Property, plant and equipment (continued)

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements.

1.6 Site restoration and dismantling cost (Landfill sites)

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) [redacted] a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of [redacted] asset, the municipality considers whether this is [redacted] indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of [redacted] internal project) is recognised as an expense when it is incurred.

Accounting Policies

1.7 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is [redacted] intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on [redacted] straight line basis, to their residual values [redacted] follows:

Item	**Useful life**
Computer software, other	5 Years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements.

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Trade Payables

Trade payables are initially measured at fair value, and [redacted] subsequently measured at amortised cost, using the effective interest rate method. Liabilities for annual leave (accrued leave pay) and annual bonus are recognised as they accrue to employees. Accrual is based on the potential liability of the municipality. Liabilities for goods and services rendered to the municipality before year end are accrued on management's estimate if the invoice or statement have not been issued.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will [redacted] a financial loss for the other party by failing to discharge an obligation.

1.9 Financial instruments (continued)

Derecognition is the removal of a previously recognised financial asset or financial liability from the entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in ■ specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to ■ party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at ■ future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or ■ financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is ■ contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of ■ debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Accounting Policies

1.9 Financial instruments (continued)

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and Cash Equivalents	Financial asset measured at amortised cost
Trade Receivables	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loans	Financial liability measured at amortised cost
Finance lease	Financial liability measured at amortised cost
Payables	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using ■ valuation technique. The objective of using ■ valuation technique is to establish what the transaction price would have been on the measurement date in ■ arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is ■ valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. ■ demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

Accounting Policies

1.9 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in [redacted] carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Presentation

Interest relating to a financial instrument or [redacted] component that is a financial liability is recognised [redacted] revenue or expense in surplus or deficit.

Dividends or similar distributions relating to [redacted] financial instrument or a component that is a financial liability is recognised [redacted] revenue or expense in surplus or deficit.

Losses and gains relating to [redacted] financial instrument or a component that is [redacted] financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has [redacted] legally enforceable right to set off the recognised amounts and intends either to settle on [redacted] net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Unspent conditional grants

A government grant is recognised only when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received.

Where not all conditions relating to the conditional grant has been met, a portion of the grant is treated as unspent. In this case, the unspent portion is treated as deferred income.

1.11 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is [redacted] non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or

Accounting Policies

1.11 Statutory receivables (continued)

- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Accounting Policies

1.11 Statutory receivables (continued)

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or [redacted] part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.12 Leases

A lease is classified [redacted] a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified [redacted] an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as [redacted] finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so [redacted] to produce [redacted] constant periodic interest rate on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised [redacted] revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense [redacted] straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Accounting Policies

1.13 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for [redacted] nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for [redacted] nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised [redacted] an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, [redacted] recognised as a reduction in the amount of inventories recognised [redacted] an expense in the period in which the reversal occurs.

Water

The estimation of the water inventory in the reservoirs is based on the measurement of water via manual level meters, where the level indicates the depth of the water in the reservoir, which is then converted into volumes based on the total capacity of the relevant reservoir.

Water is regarded as inventory when the municipality purchased water in bulk with the intention to resell it to the consumer or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.) However, water in dams, that are filled by natural resources and that has not yet been treated, is under the control of the municipality but can not be measured reliably as there is no cost attached to the water, is not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location, net of trade discounts and rebates.

Water and purified effluent are valued by using the last invoice amount per KL as received from the water supplier to determine the lowest of cost and net realisable value.

1.14 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by completion of a physical proportion of the contract work.

Accounting Policies

1.14 Construction contracts and receivables (continued)

Treasury provides the Municipality with the Regional Bulk infrastructure grant. This Grant refunds the Municipality for expenses incurred on approved projects.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised [redacted] an expense immediately.

1.15 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.16 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.17 Employee benefits

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense [redacted] they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes [redacted] dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.17 Employee benefits (continued)

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on [redacted] straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle [redacted] defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for [redacted] reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation [redacted] adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.18 Provisions and contingencies

Provisions are recognised when:

- the municipality has [redacted] present obligation as [redacted] result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- [redacted] reliable estimate can be made of the obligation.

The amount of [redacted] provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is [redacted] pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as [redacted] separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised [redacted] an interest expense.

Accounting Policies

1.18 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 49.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model, the related depreciation, based on the estimated useful life of the landfill site is recognised immediately in surplus or deficit.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

1.19 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or operational commitments are excluded.

1.20 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.20 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of [redacted] transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over [redacted] specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service charges relating to electricity, water and sanitation are based on consumption. Meters are read and billed on a monthly basis and revenue is accounted for when invoiced. Estimated consumption's are made monthly when meters have not been read. The estimates of consumption are accounted for as revenue when invoiced. Adjustments to estimates of consumption are made in the invoicing period when meters have been read. These adjustments are accounted for as revenue or as a write back of revenue in the invoicing period. Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. An adjustment for an unutilised portion is made at year end based on the average consumption history.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised [redacted] they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Income from agency services: Income from agency services [redacted] accounted for on a monthly basis once the income collected/retrieved on behalf of agents has been quantified. The income is accounted for in terms of the agency agreement.

1.21 Revenue from non-exchange transactions

Non-exchange transactions are defined [redacted] transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of [redacted] financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on [redacted] re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.22 Borrowing costs

Borrowing costs are interest and other expenses incurred by [redacted] entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.23 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.24 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of [redacted] vote or a main division within [redacted] vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised [redacted] an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised [redacted] an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.26 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

Accounting Policies

1.26 Irregular expenditure (continued)

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.27 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisation's (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018-07-01 to 2019-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.28 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of [redacted] entity so as to obtain benefits from its activities.

Accounting Policies

1.28 Related parties (continued)

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is [redacted] transfer of resources, services or obligations between the reporting entity and [redacted] related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the provincial sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of [redacted] person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements.

1.29 Accumulated surplus

Accumulated surplus is updated on a yearly basis with the net deficit or net loss, whichever is applicable for the financial period's results.

1.30 Value Added Tax (VAT)

The municipality is registered with SARS for VAT on the payment basis, in accordance with Sec15(2)(a) of the Value-added Tax Act No 89 of 1991. VAT is accounted for on the accrual basis [redacted] required by GRAP on the transaction basis. At year end balances remain for deferred VAT Receivable and Payable [redacted] well as the Actual amount receivable or payable with SARS.

Notes to the Financial Statements

Figures in Rand	2020	2019

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods:

• GRAP 104: Financial Instruments		
• GRAP 34: Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2019	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2019	Unlikely there will be a material impact

Notes to the Financial Statements

2. New standards and interpretations (continued)

▪ GRAP 38: Disclosure of Interests in Other Entities	01 April 2019	Unlikely there will be a material impact
▪ GRAP 110: Living and Non-living Resources	01 April 2019	Unlikely there will be [redacted] material impact

3. Inventories

Consumable stores	38 191	40 406
Water	1 531	1 500
	39 722	**41 [redacted]**

Carrying value of inventories carried at fair value less costs to sell	39 722	41 906
Inventories recognised as an expense during the year	292 144	441 924

Inventory pledged [redacted] security

No inventory was pledged as security during the current financial period.

4. Receivables from exchange transactions

Deposits	106 780	106 780
Consumer debtors - Electricity	2 191 010	2 282 375
Consumer debtors - Water	318 373	327 759
Consumer debtors - Sewerage	412 513	340 646
Consumer debtors - Refuse	216 766	173 063
Consumer debtors - Arrears	138 858	82 432
Consumer debtors - Rentals	25 325	37 096
Consumer debtors - Other	112 538	122 409
	3 522 163	**3 472 560**

5. Statutory receivables from non-exchange transactions

Fines	1 675 760	1 665 659
Consumer debtors - Rates	645 324	375 900
	2 321 084	**2 041 559**

Analysis of statutory receivables from non-exchange transactions that [redacted] impaired at the reporting date - traffic fines:

As of 30 June 2020, Traffic fine receivables from non-exchange transactions, the impairment raised in the current year is R2 645 581.00.

The amount of the traffic fines and provision recognised [redacted] as follows.

Traffic fine	4 520 577	4 547 621
Provision for traffic fine	(2 844 817)	(2 881 962)
Net balance	1 675 760	1 665 659

The impairment movement for traffic fines is made up as follows:
Allowance for impairment:

Opening balance	2 881 962	2 921 929
Provision for the year	(37 145)	(109 967)
Net balance	2 844 817	2 881 962

Traffic fines are levied in accordance with the Administrative Adjudication of Road Traffic Offences Act, 1998 (AARTO). The charge per traffic fine is based on schedule 3 of the AARTO Regulations, 2008.

Figures in Rand	2020	2019

5. Statutory receivables from non-exchange transactions (continued)

Interest is not charged on outstanding traffic fines

In certain circumstances, traffic fines are contested in court by the offender and the court determines the final amount payable by the offender. The provision for impairment is based on the uncollectable portion of the fine [redacted] determined by the court.

Traffic Fines	1 675 760	1 665 659

Analysis of statutory receivables from non-exchange transactions that were impaired at the reporting date - property rates:

Property rates	8 002 571	6 751 596
Provision for impairment	(7 357 247)	(6 375 696)
Net balance	645 324	375 900

The impairment movement for property rates is made up as follows:

Opening balance	6 375 696	5 495 620
Provision for the year	981 551	880 076
Net balance	7 357 247	[redacted] 375 696

Propert rates are levied in accordance with section 2 of the Local Government: Municipal Property Rates Act, 2004.

All properties that are within the jurisdiction of the municipality [redacted] required to be charged a property rates levy. The value of all properties are recorded in the municipal valuation roll. The municipality calculates the property rates levy by using the value of the property as well as the relevant tariff obtained from the council approved property rates policy. The tariff used in the calculation is based on the nature of the property (residential, commercial, state, small holdings and farms).

Property rates are charged to the owner of the property on a monthly basis.

At the end of the reporting period the municipality assesses the collectability of outstanding debts owing from customers in respect of property rates. The assessment includes [redacted] trend analysis per customer account in order to estimate the recoverability of the outstanding debt at the financial year end. The uncollectable portion is considered to be impaired and is inlcuded in an allowance for impairment account.

The effects of discounting estimated future cash flows [redacted] considered immaterial as property rates are short term receivables and the initial credit period granted is consistent with terms used in the public sector

Analysis of statutory receivables from non-exchange transactions that were not impaired [redacted] the reporting date:

	2020	**2019**
Property rates	645 324	375 900

6. Debt impairment

Contributions to debt impairment provision	8 461 564	8 824 367

The debt impairment indicated above includes both the impairments on Current and Non-Current Debtors.

The impairment movement is made up [redacted] follow:		
Opening balance (Current and Non-Current)	(51 052 337)	(42 637 431)
Provision on current debtors	(8 486 340)	(8 414 906)
	(59 [redacted] 677)	**(51 052 337)**

Notes to the Financial Statements

Figures in Rand	2020	2019

7. Consumer debtors disclosure

	2020	2019
Gross balances		
Consumer debtors - Rates	8 002 571	[redacted] 751 596
Consumer debtors - Electricity	8 451 570	7 205 129
Consumer debtors - Water	19 885 317	17 474 837
Consumer debtors - Sewerage	15 025 711	12 673 699
Consumer debtors - Refuse	8 619 975	7 243 152
Consumer debtors - Arrears	1 755 747	1 635 014
Consumer debtors - Rentals	1 739 377	1 685 867
Consumer debtors - Other	119 116	124 723
	[redacted] 384	**54 794 017**

	2020	2019
Less: Allowance for impairment		
Consumer debtors - Rates	(7 357 247)	(6 375 696)
Consumer debtors - Electricity	(6 260 560)	(4 922 754)
Consumer debtors - Water	(19 566 944)	(17 147 078)
Consumer debtors - Sewerage	(14 613 198)	(12 333 053)
Consumer debtors - Refuse	(8 403 209)	(7 070 089)
Consumer debtors - Arrears	(1 616 889)	(1 552 582)
Consumer debtors - Rentals	(1 714 052)	(1 648 771)
Consumer debtors - Other	(6 578)	(2 314)
	(59 538 677)	**(51 052 337)**

	2020	2019
Net balance		
Consumer debtors - Rates	645 324	375 900
Consumer debtors - Electricity	2 191 010	2 282 375
Consumer debtors - Water	318 373	327 759
Consumer debtors - Sewerage	412 513	340 646
Consumer debtors - Refuse	216 766	173 063
Consumer debtors - Arrears	138 858	82 432
Consumer debtors - Rentals	25 325	37 096
Consumer debtors - Other	112 538	122 409
	4 060 707	**[redacted] 741 680**

	2020	2019
Included in above is receivables from exchange transactions		
Electricity	2 191 010	2 282 375
Water	318 373	327 759
Sewerage	412 513	340 646
Refuse	216 766	173 063
Arrears	138 858	82 432
Rentals	25 325	37 096
Other	112 538	122 409
	[redacted] 415 383	**[redacted] 365 780**

	2020	2019
Included in above is statutory receivables from non-exchange transactions (taxes and transfers)		
Property Rates	8 002 571	[redacted] 751 596
Provision for impairment	(7 357 247)	(6 375 696)
	645 324	**375 [redacted]**
Net balance	**[redacted] 707**	**[redacted] 741 680**

Figures in Rand	2020	2019

7. Consumer debtors disclosure (continued)

Rates		
Current (0 -30 days)	168 752	108 654
31 - 60 days	65 177	38 803
61 - 90 days	49 174	23 245
91 - 120 days	42 496	20 402
121 - 365 days	319 725	184 796
	645 324	**375 [redacted]**

Electricity		
Current (0 -30 days)	832 245	880 610
31 - 60 days	276 861	349 989
61 - 90 days	238 714	288 531
91 - 120 days	192 111	267 319
121 - 365 days	651 079	495 926
	2 191 010	**2 [redacted] 375**

Water		
Current (0 -30 days)	91 074	94 156
31 - 60 days	24 143	19 024
61 - 90 days	11 456	14 455
91 - 120 days	9 143	14 098
121 - 365 days	182 557	186 026
	318 373	**327 759**

Sewerage		
Current (0 -30 days)	82 277	75 437
31 - 60 days	32 704	25 919
61 - 90 days	22 223	18 304
91 - 120 days	16 858	12 984
121 - 365 days	258 451	208 002
	412 513	**340 646**

Refuse		
Current (0 -30 days)	39 330	35 153
31 - 60 days	15 459	12 598
61 - 90 days	10 531	9 148
91 - 120 days	8 540	7 154
121 - 365 days	142 906	109 010
	216 766	**173 063**

Business service levies		
Current (0 -30 days)	11 321	6 942
31 - 60 days	9 631	5 856
61 - 90 days	8 882	4 539
91 - 120 days	[redacted] 658	2 600
121 - 365 days	100 366	62 495
	138 [redacted]	**82 432**

Notes to the Financial Statements

Figures in Rand	2020	2019

7. Consumer debtors disclosure (continued)

Regional services levies		
Current (0 -30 days)	18 431	5 914
31 - 60 days	6 894	4 760
61 - 90 days	-	4 199
91 - 120 days	-	4 199
121 - 365 days	-	18 024
	25 325	**37 096**

Housing rental		
Current (0 -30 days)	3 267	3 948
31 - 60 days	137	137
61 - 90 days	137	137
91 - 120 days	137	137
121 - 365 days	108 860	118 050
	112 538	**122 409**

Figures in Rand	2020	2019

7. Consumer debtors disclosure (continued)

Summary of debtors by customer classification

	2020	2019
Consumers		
Current (0 -30 days)	1 600 518	2 189 835
31 - 60 days	1 227 055	960 566
61 - 90 days	1 118 376	944 569
91 - 120 days	1 056 535	977 593
121 - 365 days	49 923 542	42 343 097
	54 926 026	47 415 660
Less: Allowance for impairment	(52 442 682)	(44 886 096)
	[redacted] 483 344	**[redacted] 529 [redacted]**

	2020	2019
Industrial/ commercial		
Current (0 -30 days)	603 046	206 592
31 - 60 days	301 112	145 455
61 - 90 days	235 668	40 692
91 - 120 days	297 758	19 435
121 - 365 days	6 478 311	464 482
	7 915 895	876 656
Less: Allowance for impairment	(6 921 228)	(242 169)
	994 667	**634 487**

	2020	2019
National and provincial government		
Current (0 -30 days)	210 058	561 248
31 - 60 days	118 292	281 986
61 - 90 days	93 689	204 871
91 - 120 days	83 665	176 633
121 - 365 days	253 649	5 278 860
	759 353	[redacted] 503 598
Less: Allowance for impairment	(289 198)	(5 767 931)
	470 155	**735 667**

	2020	2019
Total debtor past due but not impaired		
31 - 60 days	1 243 430	1 210 815
61 - 90 days	430 868	456 950
91 - 120 days	340 980	362 421
121 - 365 days	277 805	1 590 751
> 365 days	1 655 084	-
	[redacted] 948 167	**3 620 937**

	2020	2019
Reconciliation of allowance for impairment		
Balance at beginning of the year	(51 052 337)	(42 637 432)
Contributions to allowance	(8 486 340)	(8 414 905)
	(59 538 677)	**(51 [redacted] 337)**

8. Other receivables

Other receivables consist out of:

	2020	2019
Motor Registrations	411 416	411 416
Disputes	184 000	184 000
	595 416	**[redacted] 416**

Notes to the Financial Statements

Figures in Rand	2020	2019

9. Cash and cash equivalents

Cash and cash equivalents consist of:

	2020	2019
Cash on hand	6 486	6 486
Short-term deposits	30 527	4 345 831
Bank overdraft	(2 786 097)	(1 761 688)
	(2 749 084)	**[redacted] 629**
Current assets	37 013	4 352 317
Current liabilities	(2 786 097)	(1 761 688)
	(2 749 084)	**2 590 [redacted]**

The carrying value of these assets approximate their fair value. No securities are being held over these assets.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
(Closed) ABSA Bank - Current Account - Account number: 47-037-030	-	-	117 052	-	-	132 751
(Closed) ABSA Bank - Current Account - Account number : 922-871-4535	-	-	1 371	-	-	-
STANDARD BANK - Account number: 048-873-772-001 (WSIG)	1 591	2 336	173 545	30 528	4 345 831	173 545
	-	-	-	-	-	-
STANDARD BANK - Account number: 041-879-171	271 612	(48 807)	559 798	(2 310 327)	(1 842 234)	593 126
	-	-	-	-	-	-
STANDARD BANK - Account number: 048-871-524-001(WSIG)	1 004	1 765 058	-	-	-	-
Traffic BANK - Account number: 063-362-309	320	80 546	42 343	(475 769)	80 546	42 343
Petty cash and float	1 591	1 591	1 591	6 486	6 486	1 591
STANDARD BANK - Account number: 048-871-672-001(MIG)	2 012	2 465 708	-	-	-	-
STANDARD BANK - Account number: 048-871-311-001(INEP)	1 352	47 406	-	-	-	-
STANDARD BANK - Account number: 048-871-362-001(Operational Grants)	1 005	41 167	-	-	-	-
Total	**[redacted] 487**	**4 355 [redacted]**	**[redacted] 700**	**(2 749 082)**	**2 [redacted] 629**	**943 356**

10. Investment property

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	21 075 677	-	21 075 677	20 867 009	-	20 867 009

Notes to the Financial Statements

Figures in Rand	2020	2019

10. Investment property (continued)

Reconciliation of investment property - 2020

	Opening balance	Fair value adjustments	Total
Investment property	20 867 009	208 668	21 075 677

Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property	20 660 405	206 604	20 867 009

Details of property

	2020	2019
Property [redacted] Land held for capital appreciation. - Purchase price: 1 December 2008	3 450 658	3 450 658
Property [redacted] Land and improvements held for capital appreciation. - Purchase price: 1 December 2008	4 672 500	4 672 500

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluation was 30 June 2020. The fair value adjustments were determined based on the trend of the general market growth rate figure as indicated through the FNB house price indices for February 2020, being a rate of 3.3%, this rate was adjusted to 1%, considering the registered market transactions and slow growth and decline in the demand for these properties.

This was supported by sale prices which were based on data sourced from transactions registered in the Registrar of Deeds

The fair value of Investment Property was provided by Zach van der Merwe, registered [redacted] Professional Proper Valuer under subsection (2) of Section (22) of (Act 47) of 2000 of the Property Valuers Professional Bill.

11. Property, plant and equipment

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	1 647 844	-	1 647 844	1 647 844	-	1 647 844
Buildings	39 901 318	(29 392 377)	10 508 941	39 901 318	(27 432 144)	12 469 174
Plant and machinery	1 278 191	(881 426)	396 765	1 265 242	(796 281)	468 961
Furniture and fixtures	1 141 710	(803 822)	337 888	1 161 505	(720 354)	441 151
Motor vehicles	1 231 132	(531 284)	699 848	1 084 561	(417 816)	666 745
Office equipment	1 494 471	(943 135)	551 336	1 419 569	(813 680)	605 889
Finance lease assets	3 866 411	(1 730 834)	2 135 577	4 044 054	(1 092 747)	2 951 307
Infrastructure	366 409 279	(135 150 377)	231 258 902	353 384 623	(122 588 608)	230 796 015
Emergency equipment	305 684	(242 704)	62 980	305 684	(221 444)	84 240
Total	**417 276 040**	**(169 675 959)**	**247 600 081**	**404 214 400**	**(154 083 074)**	**250 131 326**

Thembelihle Local Municipality
(Registration number NC076)
Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	WIP Under Construction	Disposals	[redacted] Completed	Transfers	WIP Additions	Depreciation	Impairment loss	Impairment reversal	Total
Land	1 647 844	-	-	-	-	-	-	-	-	-	1 647 844
Buildings	12 469 174	-	-	-	-	-	-	(2 881 095)	(80 455)	1 001 317	10 508 941
Plant and machinery	468 961	52 453	-	(6 014)	-	-	-	(118 603)	(32)	-	396 765
Furniture and fixtures	441 151	4 645	-	(5 507)	-	-	-	(99 944)	(2 457)	-	337 888
Motor vehicles	666 745	146 571	-	-	-	-	-	(86 339)	(27 129)	-	[redacted] 848
Office equipment	605 [redacted]	121 768	-	(10 212)	-	-	-	(164 923)	(1 186)	-	551 336
Finance lease assets	2 951 307	-	-	(130 654)	-	-	-	(685 076)	-	-	2 135 577
Infrastructure	195 752 490	-	35 043 525	(29 260)	(8 784 258)	8 814 618	13 104 041	(12 633 152)	(109 102)	-	231 258 902
Emergency equipment	84 240	-	-	-	-	-	-	(21 260)	-	-	[redacted] 980
	215 087 801	**325 437**	**35 043 525**	**(181 647)**	**(8 784 258)**	**8 814 618**	**13 104 041**	**(16 590 392)**	**(220 361)**	**1 001 317**	**247 [redacted] 081**

Notes to the Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	WIP Under Construction	Disposals	[illegible] Completed Assets	Transfers	WIP Additions	Depreciation	Impairment loss	Impairment reversal	Total
Land	1 647 844	-	-	-	-	-	-	-	-	-	1 647 844
Buildings	14 120 833	-	-	-	-	-	-	(1 403 364)	(248 295)	-	12 469 174
Plant and machinery	603 325	30 438	-	(400)	-	-	-	(164 402)	-	-	468 961
Furniture and fixtures	584 138	2 900	-	(677)	-	-	-	(139 938)	(5 361)	[illegible]	441 151
Motor vehicles	865 406	-	-	(65 399)	-	-	-	(133 262)	-	-	666 745
Office equipment	748 266	85 211	-	(7 433)	-	-	-	(220 869)	-	734	[illegible] 869
Finance Lease Assets	3 287 518	380 580	-	-	-	-	-	(716 791)	-	-	2 951 307
Infrastructure	198 862 633	-	19 400 722	(110 819)	(10 819 533)	10 819 533	26 462 336	(12 798 894)	(1 019 963)	-	230 796 015
Emergency Equipment	114 979	-	-	-	-	-	-	(30 739)	-	-	84 240
	220 834 942	**499 129**	**19 400 722**	**(184 728)**	**(10 [illegible] 533)**	**10 819 533**	**26 462 336**	**(15 608 279)**	**(1 273 619)**	**823**	**250 131 [illegible]**

Notes to the Financial Statements

Figures in Rand	2020	2019

11. Property, plant and equipment (continued)

Depreciation rates

The depreciation methods and average useful lives of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	10 - 30
Electricity	Straight line	5 - 50
Roads and Paving	Straight line	5 - 80
Furniture and fittings	Straight line	5 - 15
Motor vehicles	Straight line	7 - 15
Office equipment	Straight line	5 - 15
Computer equipment	Straight line	5 - 10
Emergency Equipment	Straight line	10
Plant & Equipment	Straight line	5 - 15
Community Facilities	Straight line	30
Recreational Facilities	Straight line	15 - 30
Sanitation	Straight line	10 - 100
Sewerage / Solid Waste	Straight line	10 - 60
Water network	Straight line	10 - 100

Assets subject to finance lease (Net carrying amount)

	2020	2019
Finance lease assets	2 135 577	2 951 307

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Total
Opening balance	35 043 525	35 043 525
Additions/capital expenditure	13 104 041	13 104 041
Transferred to completed items	(8 784 258)	(8 784 258)
	39 363 308	**39 363 [redacted]**

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Total
Opening balance	19 400 722	19 400 722
Additions/capital expenditure	26 462 336	26 462 336
Transferred to completed items	(10 819 533)	(10 819 533)
	35 043 525	**35 043 [redacted]**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance	2020	2019
Consumables	958 910	374 865
Specialist Services	27 819	55 387
Subsistance and travelling	39 414	16 080
	1 026 143	**446 332**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Financial Statements

Figures in Rand	2020	2019

12. Intangible assets

	2020			2019		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	582 817	(556 165)	26 652	582 817	(528 865)	53 952

Reconciliation of intangible assets - 2020

	Opening balance	**Amortisation**	**Total**
Computer software, other	53 952	(27 300)	26 652

Reconciliation of intangible assets - 2019

	Opening balance	**Amortisation**	**Total**
Computer software, other	115 513	(61 561)	53 952

13. Non current receivables from exchange transactions

Thembelihle Municipality provides two settlement options to Consumer debtors to settle their outstanding service accounts,
Option 1: 25% of the outstanding balance is paid over 3 years. Once the 25% is settled the remaining 75% of the outstanding account are written off.
Option 3: 60% of the outstanding balance is paid once-off and the remaining 40% of the outstanding balance is written off.

The balance of R703 543 (2019: R420 003), after provision for impairments of R4 374 939 (2019: R3 914 073), reflect the Non-Current portion payable under Option1. The Amount written off under Option 1 and 3 totals R518 738 (2019: R988 391).

14. Loan payable

	2020	2019
At amortised cost		
DBSA Loans Non Current	2 135 226	2 904 618
DBSA Loans Current	767 827	559 312
	2 [illegible] 053	**3 463 930**
Total other financial liabilities	**2 903 053**	**3 463 930**

DBSA Loans are repayable on a quarterly basis at R178 663 with an interest charge of 5% per year. The loan will be fully repaid in September 2024.

Defaults and Breaches
Included in the R2 903 053 loans payable at year end is the default installment of R142 918 and R35 745 interest.

	2020	2019
Non-current liabilities		
At amortised cost	2 135 226	2 904 618
Current liabilities		
At amortised cost	767 827	559 312

Notes to the Financial Statements

Figures in Rand	2020	2019

15. Finance lease obligation

Minimum lease payments due		
- within one year	1 028 254	1 039 656
- in second to fifth year inclusive	1 781 228	2 884 714
	2 809 482	3 924 370
less: future finance charges	(348 087)	(651 288)
Present value of minimum lease payments	**[redacted] 461 395**	**[redacted] 273 [redacted]**

Present value of minimum lease payments due		
- within one year	817 192	744 200
- in second to fifth year inclusive	1 644 203	2 528 882
	[redacted] 461 [redacted]	**[redacted] 273 [redacted]**

Non-current liabilities	1 675 436	2 503 196
Current liabilities	817 192	744 200
	[redacted] 492 628	**3 247 396**

It is municipality policy to lease certain office equipment under finance leases.

The average lease term was 3 years and the prime interest rate was 10% (2019: 10%).

Interest rates are fixed at the contract date. Certain leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 11.

16. Payables from exchange transactions

Trade payables	104 717 889	86 231 311
Payments received in advanced	454 553	450 409
Staff Underpaid	17 287	17 187
Rental Deposits	2 770	2 770
Accrued leave pay	2 673 388	2 427 922
Accrued bonus	652 599	607 499
Unallocated deposits received	149 590	160 373
Other payables	(391 921)	407 715
Retention fees	1 368 046	1 368 046
	109 644 201	**91 673 232**

17. VAT statutory receivable

Analysis of statutory receivables from exchange transactions that [redacted] not impaired at the reporting date - VAT Receivable:

VAT	3 182 341	9 438 420

The Municipality reports to SARS on the cashflow basis and accounts for VAT on the accrual basis as required by GRAP. Therefore deferred VAT balances are as follow:

VAT payable to SARS	(242 604)	3 626 701
Deferred VAT Claimable	3 424 945	5 873 500
Deferred VAT (Payable)/ Receivable	-	(61 781)
	[redacted] 182 341	**[redacted] 438 420**

Figures in Rand	2020	2019

17. VAT statutory receivable (continued)

- The municipality accounts for VAT according to the accrual basis as required by the Standards of Generally Recognised Accounting Practice. A VAT receivable was recognized in terms of section 16 of the Value-Added Tax Act No.89 of 1991.
- The municipality charges an output VAT for services rendered for the year. An input VAT is allowed to be claimed for all payments made by the municipality in acquiring goods/services in order to render the services. The difference between the total output VAT and the total input VAT resulted in an amount owing to the municipality by the South African Revenue Services. The VAT receivable was a refund that was owing to the municipality at year end.
- The receivable was not considerred for impairment [redacted] there was no risk associated with non-receipt of money from the South African Revenue Services.

18. Consumer deposits

	2020	2019
Water and electricity	647 657	624 460

19. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement medical aid plan

The municipality operates [redacted] funded post employment health care defined benefit plan for qualifying employees. Employees of the municipality are members of LA Health, Hosmed, Bonitas and SAMWUMED medical aid schemes.

The municipality is committed to pay 70% of the members post employment medical aid contributions. All subsidies are subject to a maximum of R4 773.12 for the year ending 30 June 2021. Under the plan, dependants of the former employees are entitled to continued membership of their medical aid scheme upon the death of the primary member. No other post-employment benefits are provided to these employees. As at the end of the financial period, the members of the medical aid entitled to the post employment medical scheme subsidy were 32 in-service members, 56 in service non-members and 6 pensioners.

The most recent actuarial valuation of the plan assets and the present value of the defined obligations were carried out at 30 June 2020 by ARCH Actuarial Consulting. The present value of the defined benefit obligation, and the related current service cost and past service costs, were measured using the Projected Unit Credit Method.

The amounts recognised in the statement of financial position are [redacted] follows:

	2020	2019
Carrying value		
Present value of the defined benefit obligation-wholly unfunded - members	1 865 000	2 196 026
Present value of the defined benefit obligation-partly or wholly funded	2 609 000	2 769 564
Present value of the defined benefit obligation - wholly funded - non members	503 000	-
	4 977 [redacted]	**4 965 [redacted]**
Non-current liabilities	(4 722 999)	(4 729 246)
Current liabilities	(254 000)	(236 344)
	(4 976 999)	**(4 [redacted] 590)**

The municipality does not have assets set aside for post-employment medical aid funding that qualify as plan assets in terms of the requirements of GRAP 25

Notes to the Financial Statements

Figures in Rand	2020	2019

19. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are [redacted] follows:

Opening balance	4 965 590	4 977 296
Vested Benefits	(236 344)	(234 840)
Acturial (gain)/Loss	(230 403)	(466 709)
Policy amendments	(171 000)	-
Net expense recognised in the statement of financial performance	649 157	689 843
	4 977 000	**4 965 [redacted]**

Net expense recognised in the statement of financial performance

Current service cost	203 440	230 334
Interest cost	445 717	459 509
	[redacted] 157	**[redacted] 843**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	230 403	466 709

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10,09 %	9,16 %
Medical cost trend rates	6,33 %	2,32 %
Expected increase in healthcare costs	6,20 %	6,71 %
Future changes in maximum state healthcare benefits	4,28 %	4,66 %

Replacement Ratio: This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

Decrement Assumptions: Mortality [Active members: SA(85-90), Pensioners: PA(90)]

Average retirement age:The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 62, which then implicitly allows for expected rates of early and ill-health retirement and early retirement.

Continuation of Membership: It has been assumed that 75% of in-service members will remain on the Municipality's health care arrangement should they stay until retirement.

Family profile: It has been assumed that husbands will be five years older than their wives. Further, we've assumed that 60% of eligible employees on a health care arrangement at retirement will have an adult dependant. For current retiree members, actual marital status was used and the potential for remarriage was ignored.

Notes to the Financial Statements

Figures in Rand	2020	2019

19. Employee benefit obligations (continued)

Other assumptions - Sensitivity Analysis

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends, Discount rate and Post retirement mortality will have the following effects:

	One percentage point increase	One percentage point decrease
Effect on defined benefit obligation	755 000	598 000

Amounts for the current and previous three years are as follows:

	2020	2019	2018
Defined benefit obligation	4 965 591	4 977 297	5 232 485

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act and some are multi-employer exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plans which are Multi-Employer Funds and are Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plans [redacted] defined benefit plans. The municipality accounted for this these plans as a defined contribution plans.

COVID - 19 Impact

It is difficult to estimate what impact the pandemic is likely to have on the Municipality's liability at this early stage. There is much uncertainty as to how it will affect mortality, and whether (and when) a treatment or vaccine will become available. If the return to economic normalcy is extended, then the Municipality's experience regarding resignations and retrenchments may also be affected. Medical scheme contributions are also likely to increase by more than expected.

30 June 2020 long-term government bond yields (which drive the main figures in this report) increased dramatically since the early stages of the pandemic. This pushes up the net discount rate which in turn reduces the liability. It is impossible to say how long-lasting this volatility in the prescribed discount rate and its consequent impact on the liability is likely to be. The sensitivities in Table 7.1 (and 7.3) above may be used to estimate the possible impact on the liability (and expenses) by an increase in the health care inflation rate, or an increase in the discount rate, or a reduction in longevity ("+1 yr" in the tables).

20. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2020	2019
Unspent conditional grants and receipts		
Municipal Infrastructure Grant	1 496 228	2 360 915
Library Grant	-	873 252
Finance Management Grant	1 237	1 412
Municipal Systems Infrastructure Grant	2 175	2 175
Integrated National Electricity Programme	38	38
Water Sanitation Infrastructure Grant	-	1 772 623
	1 499 678	**5 010 415**

Figures in Rand	2020	2019

20. Unspent conditional grants and receipts (continued)

Movement during the year

	2020	2019
Balance at the beginning of the year	5 010 415	1 272 767
Additions during the year	34 250 758	41 617 356
Income recognition during the year	(37 761 495)	(37 879 708)
	1 [redacted] 678	**5 010 415**

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited.

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 33 for reconciliation of grants from National/Provincial Government.

21. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Total
Environmental rehabilitation	8 797 416	2 867 198	11 664 614

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	8 272 431	524 985	8 797 416

Environmental rehabilitation provision

Council operates two disposal sites. In terms of the Environmental Conservation Act (Act No 73 of 1989), the municipality is responsible to perform a rehabilitation of the land upon closure of the landfill site.

Section 24G (1) of the NEMA also stipulates that the landfill site be closed with immediate effect if no objection has been made by the municipality, therefore the provision for rehabilitation has been calculated as a current liability at 30 June 2020.

The calculation was based on cost to close and rehabilitate the site within 12 months after 30 June 2020. As the closure date is estimated to be at year end, no discount rates were applied.

There is a new site under development at Hopetown at 30 June 2020, but is still in the process of being licensed and has not been used for disposal to date, therefore its rehabilitation provision will be added in the future, but cannot during this year's assessment due to no obligation to rehabilitate yet.

Summary of assumptions made for valuation purpose:

- Disposal rate at the sites less than 25 tonnes per day based on population statistics.
- Capping design based on DWS comments and/or recently issued closure licences in other Municipalities since no closure licences or designs have been issued for the Thembelihle Local Municipality.
- Sufficient quantities of capping material in the proportions [redacted] described in section 3.1 of independent valuation report are available from on-site and nearby sources and the rest are to be imported from commercial sources also as described under section 3.1. of the independent valuation report.
- The sites under consideration will be closed and replaced by the [redacted] Hopetown Landfill which is in development.
- Clay was replaced by GCL in the design estimate due to the unlikely availability of sufficient quality clay from on-site sources.

Notes to the Financial Statements

Figures in Rand	2020	2019

22. Third Party collections

The Liability is due to collections on behalf of the Northern Cape Department of Transport, Safety and Liasion on which the Municipality earns a 12% commission. During previous financial periods the balances, 88% of the collections, were not paid over to the Northern Cape Department of Transport, Safety and Liasion. The balance payable to the Northern Cape Department of Transport, Safety and Liasion due to these non-payments is R744 454 (2019: R630 611)

The service level Agreement for the collections on behalf of the Northern Cape Department of Transport, Safety and Liasion came to an end 30 June 2018 when the service was moved to the Post Office. It is only the Strydenburg office 88% that are paid over monthly.

Notes to the Financial Statements

Figures in Rand	2020	2019

23. Long Service awards

The Municipality offers employees long service awards for every five years of service completed, from ten years of service to 45 years of service, inclusive.

Opening Balance	1 536 165
Current-service cost	178 660
Interest cost	114 857
Actuarial (Gain)/Loss	24 674
Employee Benefit vesting's	- 262 356
Closing Balance	1 592 000
Current Portion	177 000
Non-Current Portion	1 415 000
	1 592 000

Key Financial Assumptions:

Discount rate:	7.43% p.a
General Salary Inflation:	4.01% p.a
Net effective discount rate:	3.29% p.a

The discount rate used is derived by using ■ liability-weighted average of the yields corresponding to the average term until payment of log service awards, for each employee. The corresponding liability weighted index-linked yield is 3.81%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Johannesburg Stock Exchange after the market close on 30 June 2020.

Salary inflation rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award. The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The Expected inflation assumption of 3.01% was obtained from the differential between market yields on index-linked bonds (3.81%) consistent with the estimated terms of the liabilities and those of nominal bonds (7.43%) with ■ risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+7.43%-0.50%)/(1+3.81%))-1

Thus, a general salary inflation rate of 4.01% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 3.29%.

It has been assumed that the next salary increase will take place on 1 July 2021.

Key Demographic assumptions:

Average retirement age:	62 years			
Mortality during employment:	SA 85-90			
Withdrawal from service (Sample annual rates)		Age	Rate Female	Rate Male
		20	9%	9%
		25	8%	8%
		30	6%	6%
		35	5%	5%
		40	5%	5%
		45	4%	4%
		50	3%	3%
		55	0%	0%

23. Long Service awards (continued)

Demographic assumptions are required about the future characteristics of current employees who are eligible for LSA.

Promotional Salary Scale: The annual inflation rates below [redacted] in addition to the General Salary Inflation assumption of 4.01% per annum for all employees.

Promotional salary scale

Age band	Additional promotional scale
20 – 24	5.0%
25 – 29	4.0%
30 – 34	3.0%
35 – 39	2.0%
40 – 44	1.0%
> 45	0.0%

Pre-retirement Mortality:
SA85-90 ultimate table, adjusted down for female lives.

Average Retirement Age:
The normal retirement age is 65. It has been assumed that employees will retire at age 62 on average, which implicitly makes an allowance for expected rates of early and ill-health retirement.

Withdrawal from Service: If an in-service member leaves, the employer's liability in respect of that member ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

Sample withdrawal rates

Age	Females	Males
20	9%	9%
25	8%	8%
30	6%	6%
35	5%	5%
40	5%	5%
45	4%	4%
50	3%	3%
55	0%	0%
>55	0%	0%

The liability at the Valuation Date was recalculated to show the effect of:
(i) A 1% increase and decrease in the assumed general salary inflation rate;
(ii) A 1% increase and decrease in the discount rate;
(iii) A two-year decrease and increase in the assumed average retirement age of employees; and
(iv) A 50% decrease in the assumed withdrawal rates from service.

Sensitivity Analysis [redacted] the Unfunded Accrued Liability (in R Millions)

Assumption	Change	Liability	% change
Central assumptions		1.592	
General salary inflation	+1%	1.693	6%
	-1%	1.500	-6%
Discount Rate	+1%	1.496	-6%
	-1%	1.699	7%
Average retirement age	-2 yrs	1.391	-13%
	+2 yrs	1.697	7%
Withdrawal rates	x50%	1.815	14%
	x200%	1.262	-21%

The table above indicates, for example, that if salary inflation is 1% greater than the long-term assumption made, the liability will be 6% higher than the results shown.

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2020

Assumption	Change	Current-service Cost	Interest Cost	Total	% change
Central assumptions		178.700	114.900	293.600	

Figures in Rand	2020	2019

23. Long Service awards (continued)

General salary inflation	+1%	193.800	122.700	316.500	8%
	-1%	165.100	107.700	272.800	-7%
Discount Rate	+1%	166.200	120.500	286.700	-2%
	-1%	192.800	108.200	301.000	3%
Average retirement age	-2 yrs	161.400	100.500	261.900	6%
	+2 yrs	188.700	122.100	310.800	-11%
Withdrawal rate	x50%	218.100	132.900	351.000	20%

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2021

Assumption	Change	Current-service Cost	Interest Cost	Total	% change
Central assumptions		177.000	112.000	289.000	
General salary inflation	+1%	191.000	119.000	310.000	7%
	-1%	164.000	105.000	269.000	-7%
Discount Rate	+1%	165.000	119.000	284.000	-2%
	-1%	189.000	104.000	293.000	1%
Average retirement age	-2 yrs	159.000	98.000	257.000	-11%
	+2 yrs	187.000	120.000	307.000	6%
Withdrawal rate	x50%	213.000	128.000	341.000	18%
	x200	127.000	87.000	214.000	-26%

Impact of COVID-19

It is difficult to estimate what impact the pandemic is likely to have on the Municipality's liability at this early stage. There is much uncertainty as to how it will affect mortality, and whether (and when) ■ treatment or vaccine will become available. If the return to economic normalcy is extended, then the Municipality's experience regarding resignations and retrenchments may also be affected.

30 June 2020 long-term government bond yields (which drive the main figures in this report) increased dramatically since the early stages of the pandemic. This pushes up the net discount rate which in turn reduces the liability. It is impossible to say how long-lasting this volatility in the prescribed discount rate and its consequent impact on the liability is likely to be.
The sensitivities in Table 7.1 (and 7.3) above may be used to estimate the possible impact on the liability (and expenses) by an increase in the general earnings inflation rate, or an increase in the discount rate, or an increase in the withdrawal rates.

History of liabilities and assets	2020	2019
Accrued liability	1 592 000	1 536 165
Fair value of plan asset	-	-
Surplus deficit	(1 592 000)	(1 536 165)
	-	-

Past year and future projected Liability	2020	2019
Opening accrued liability	1 536 165	1 276 066
Current-service Cost	178 660	144 488
Interest Cost	114 857	108 448
Expected benefit vestings	(262 356)	(34 280)
Acturial loss/gain	24 674	41 443
Closing accrued liability	(1 592 000)	(1 536 165)
	-	-

Figures in Rand	2020	2019

24. Revenue

Service charges	18 466 562	21 701 936
Rental of facilities and equipment	415 620	332 182
Interest received (trading)	1 521 669	1 164 520
Licences and permits (Exchange transactions)	79 166	160 584
Licences or permits (Non-Exchange)	92 395	62 080
Commissions received	1 060 523	186 688
Other income - (rollup)	146 106	768 459
Connection fees	17 683	46 994
Interest received - investment	302 196	499 778
Property rates	4 402 334	4 035 707
Informal Settlement Rates	1 385	4 522
Government grants & subsidies	45 594 798	60 897 668
Fines, Penalties and Forfeits	406 700	211 350
	72 507 137	**[redacted] 072 [redacted]**

The amount included in revenue arising from exchanges of goods or services [redacted] follows:

Service charges	18 466 562	21 701 936
Rental of facilities and equipment	415 620	332 182
Interest received (trading)	1 521 669	1 164 520
Licences and permits	79 166	160 584
Commissions received	1 060 523	186 688
Other income - (rollup)	146 106	768 459
Connection fees	17 683	46 994
Interest received - investment	302 196	499 778
	22 009 525	**24 861 141**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	4 402 334	4 035 707
Licences or permits	92 395	62 080
Informal Settlement Rates	1 385	4 522
Transfer revenue		
Government grants & subsidies	45 594 798	60 897 668
Fines, Penalties and Forfeits	406 700	211 350
	50 497 612	**65 211 327**

25. Service charges

Sale of electricity	10 561 821	13 274 818
Sale of water	3 361 362	4 188 469
Sewerage and sanitation charges	3 012 986	2 861 368
Refuse removal	1 530 393	1 377 281
	18 466 562	**21 701 936**

26. Rental of facilities and equipment

Premises		
Premises	394 990	300 554
Venue hire	16 573	28 150
	411 [redacted]	**[redacted] 704**

Notes to the Financial Statements

Figures in Rand	2020	2019

26. Rental of facilities and equipment (continued)

Facilities and equipment		
Rental of equipment	4 057	3 478
	415 [redacted]	**332 182**

27. Interest received

Interest [redacted]		
Bank	302 196	499 778
Receivables from exchange transactions	1 521 669	1 164 520
	1 [redacted]	**1 664 [redacted]**

28. Licences and permits

Licence exchange	79 166	160 584
Licence non-exchange	92 395	62 080
	171 561	**222 664**

29. Commissions received

Commission on Motor registration collections on behalf of Third Party	1 060 523	186 688

30. Other income

Garden & Sale of Gravel	8 982	29 380
Building Plans	28 287	24 236
Advertising	1 760	[redacted] 159
Enchroachments	-	182 551
Grave Plots	11 416	[redacted] 420
Insurance payouts	62 808	355 229
Sundry repayments	(3 409)	83 993
Photostats & faxes	157	548
Sewerage obstructions	11 503	20 497
Tender Fees	14 782	45 739
Testing of meters	-	343
Valuation Certificates Issued	9 820	11 364
	146 106	**768 459**

31. Connection fees

Relates to the amounts charged for connection of property water and electricity, either if accounts are in arrears or if property has changed hands.

Consumers	17 683	46 994

Figures in Rand	2020	2019

32. Property rates

Rates received

	2020	2019
Residential	4 646 672	4 374 314
Less: Income forgone	(244 338)	(338 607)
	4 [redacted] 334	**4 035 707**

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The Department of Cooperative Governance, Human Settlements and Traditional Affairs have approved an extension of the municipality's current General Valuation Roll with two financial years. The current General valuation Roll of the municiplaty is valid until 30 June 2021.

Interim valuations [redacted] processed on [redacted] continuous basis taking into account changes in individual property values due to alterations and subdivisions. During the 2019/20 financial period there where no alterations and subdivisions noted.

Rates [redacted] levied monthly on property owners and are payable at the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts.

Valuations

	2020	2019
Residential	197 277 600	197 277 600
Commercial	82 063 800	82 063 800
State	80 123 700	80 123 700
Small holdings and farms	2 882 138 100	2 882 138 100
	3 241 603 [redacted]	**3 241 603 200**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis with the final date for payment being 30 September 2020 (30 September 2019). Interest at prime plus 1% per annum (2019: 11.5%).

The new general valuation was implemented on 01 July 2015.

Figures in Rand	2020	2019

33. Government grants and subsidies

Operating grants		
Equitable share	25 394 539	22 988 000
Finance Management Grant (FMG)	2 880 175	2 413 588
Expanded Public Works Programme (EPWP)	1 000 000	1 011 642
Library Grant	1 327 252	839 683
LG SETA Grant	35 605	29 917
Treasury's contribution towards Audit Fees	1 664 455	1 571 376
Disaster relief Grant (COVID19)	60 000	-
	32 362 026	**28 854 [redacted]**

Capital grants		
Municipal Infrastructure Grant (MIG)	7 952 772	11 991 085
Water Sanitation Infrastructure Grant (WSIG)	-	8 727 377
Integrated National Electricity Programme (INEP)	5 280 000	11 325 000
	13 232 772	**32 043 462**
	45 594 798	**[redacted] 897 668**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	20 164 654	37 909 668
Unconditional grants received	25 430 144	22 988 000
	45 594 798	**60 897 668**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. In terms of the allocation made by DPLG the funds are also utilised to enable the municipality to execute its functions [redacted] a local municipality.

All registered indigents receive [redacted] monthly subsidy of R 140 (2019: R 140), which is funded from the grant.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	2 360 915	-
Current-year receipts	[redacted] 449 000	14 352 000
Conditions met - transferred to revenue	(7 952 772)	(11 991 085)
Previous year roll over not approved Treasury deducted from current year equitable share	(2 360 915)	-
	1 [redacted]	**2 [redacted] 915**

The Municipal Infrastructure Grant (MIG) was allocated for the construction of Highmast lights, sewer and water purification infrastructure as part of the upgrading of previously disadvantaged areas.

All current year allocations were fully spent during the year and allocated to revenue under votes.

Library Grant

Balance unspent at beginning of year	873 252	1 258 935
Current-year receipts	454 000	454 000
Conditions met - transferred to revenue	(1 327 252)	(839 683)
	-	**873 [redacted]**

Figures in Rand	2020	2019

33. Government grants and subsidies (continued)

Conditions still to be met - remaining liabilities (see note 20).

The grant was as part of a contribution towards the running of libraries i.e to cover operational costs.

Expanded Public Works Programme (EPWP)

	2020	2019
Balance unspent at beginning of year	-	11 619
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 011 619)
	-	-

Conditions still to be met - remaining liabilities (see note 20).

The grants was received for the purpose of creating job opportunities.

Finance Management Grant (FMG)

	2020	2019
Balance unspent at beginning of year	1 412	-
Current-year receipts	2 880 000	2 415 000
Conditions met - transferred to revenue	(2 880 175)	(2 413 588)
	1 237	**1 412**

The Financial Management Grant is paid by National Treasury to municipalities to assist the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld.

Municipal Systems Improvement Grant (MSIG)

	2020	2019
Balance unspent at beginning of year	2 175	2 175

Conditions still to be met - remaining liabilities (see note 20).

The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems. No funds have been withheld.

Integrated National Electricity Programme (INEP)

	2020	2019
Balance unspent at beginning of year	38	38
Current-year receipts	5 280 000	11 325 000
Conditions met - transferred to revenue	(5 280 000)	(11 325 000)
	[illegible]	[illegible]

Conditions still to be met - remaining liabilities (see note 20).

The grants was paid to the municipality to promote rural development and upgrade the electricity infrastructure.

Water Sanitation Infrastructure Grant

	2020	2019
Balance unspent at beginning of year	1 772 623	-
Current-year receipts	-	10 500 000
Conditions met - transferred to revenue	-	(8 727 377)

Notes to the Financial Statements

Figures in Rand	2020	2019

33. Government grants and subsidies (continued)

Previous year roll over not approved Treasury deducted from current year equitable share	(1 772 623)	-
	-	**1 772 623**

Treasury Contribution towards Audit fees

Current-year receipts	1 664 455	1 571 356
Conditions met - transferred to revenue	(1 664 455)	(1 571 356)
	-	-

According to the Public Audit Act the Municipality is only responsible for an audit fee from the offices of the Auditor General equal to 1% of their total expenditures per annum. The balance of the audit fees are payable by Treasury.

Disaster Relief Grant (COVID19)

Current-year receipts	60 000	-
Conditions met - transferred to revenue	(60 000)	-
	-	-

34. Fines, Penalties and Forfeits

Traffic fines	406 700	211 350

Figures in Rand	2020	2019

35. Employee related costs

Basic	18 317 439	16 387 236
Medical aid - company contributions	1 257 467	1 094 490
UIF	157 479	152 233
SDL	218 911	328 798
Leave pay provision charge	40 468	857 392
Defined contribution plans	942 673	942 779
Overtime payments	1 468 253	1 022 620
Long-service awards	47 937	-
13th Cheques	1 422 583	1 319 240
Car allowance	177 311	87 390
Housing benefits and allowances	46 030	23 203
Telephone Allowances	424 900	362 518
Pension fund contributions	2 818 241	2 495 974
Provident fund contributions	44 559	50 765
Stipends	209 750	212 097
Wages	-	144 396
Senior management remuneration	3 718 547	3 596 132
	31 312 548	**29 077 263**

Remuneration of Municipal Manager

Annual Remuneration	930 577	928 761
Car Allowance	157 454	157 454
Remote allowance	42 597	41 398
Contributions to UIF, Medical and Pension Funds	1 897	12 774
Cellphone allowance	37 800	-
	1 170 325	**1 140 387**

Remuneration of Chief Finance Officer

Annual Remuneration	696 072	403 429
Remote allowance	31 594	18 234
Contributions to UIF, Medical and Pension Funds	1 896	1 102
Car allowance	120 000	70 000
Cell phone allowance	18 000	10 500
	867 [redacted]	**503 265**

Remuneration of Corporate Services Director

Annual Remuneration	666 365	770 571
Annual Payment	-	49 359
Car allowance	109 000	57 600
Housing allowance	-	24 244
Cellphone allowance	15 000	4 500
Contributions to UIF, Medical and Pension funds	1 896	189 842
Remote Allowance	26 385	-
Leave reserve	7 953	-
	[redacted]	**1 096 116**

The Position of Corporate Services Director was vacant from 1 December 2016. An acting allowance was paid to MM Makenna from 1 July 2019 untill 31 August 2019. TR Oliphant [redacted] appointed 01 September 2019 [redacted] Corporate Services Director.

Remuneration of Technical Services Director

Notes to the Financial Statements

Figures in Rand	2020	2019

35. Employee related costs (continued)

Annual Remuneration	806 071	826 081
Car Allowance	10 000	-
Remote allowance	31 594	30 178
Contributions to UIF, Medical and Pension Funds	1 896	105
Cellphone Allowance	4 501	-
	854 062	**[redacted] 364**

36. Remuneration of councillors

Councillors (Total Packages)	2 578 205	2 448 635

37. Administrative expenditure

Administration and management fees	145 388	79 249

38. Depreciation and amortisation

Property, plant and equipment	15 809 436	16 973 102
Intangible assets	27 300	61 560
	15 836 736	**17 034 662**

39. Finance costs

Non-current borrowings	155 720	181 469
Trade and other payables	7 944 762	7 600 706
Finance leases	283 007	348 040
Increase in Rehabilitation Provision	2 867 199	524 985
	11 250 688	**8 655 [redacted]**

40. Operating lease

The Municipality rents equipment used in bathroom facilities on [redacted] operating lease basis. The contract commenced in December 2016 and is renewable on an annual basis. During the 2020 year of assessment, the renewal was performed in October 2018.

- The rent payable on a monthly basis amounts to R4 220.50, exclusive of VAT.
- No escalation clauses exists and the contract is renewable after a year.
- Future rent payable:

Amount payable within a year	12 662	12 662
	12 [redacted]	**12 [redacted]**

41. Bulk purchases

Electricity	10 510 763	12 025 573
Water	558 983	536 321
	11 069 746	**12 561 894**

Figures in Rand	2020	2019

42. General expenses

Advertising	150	24 054
Auditors remuneration	4 816 204	3 385 936
Bank charges	120 476	97 021
Consulting and professional fees	6 305 947	3 790 225
Consumables	74 965	441 924
Delivery expenses	25 111	22 324
Entertainment	2 526	10 174
Insurance	473 794	684 427
IT expenses	424 157	480 927
Motor vehicle expenses	327 253	363 283
Fuel and oil	1 099 411	764 535
Postage and courier	122 991	101 688
Printing and stationery	189 180	226 012
Protective clothing	85 792	50 694
Project maintenance costs	1 004 077	1 312 027
Repairs and maintenance	1 026 143	-
Royalties and license fees	1 134 539	513 809
Staff welfare	1 343	8 670
Subscriptions and membership fees	500 000	401 500
Telephone and fax	187 842	230 246
Training	12 893	15 000
Electricity	755 712	641 091
Free Basic Services	10 800	312 696
Special Programs	424 919	366 779
Subsistence and Traveling	1 459 490	913 884
Speed Law Enforcement	476 989	150
Other expences (Contracted Services)	145 502	144 784
Chemicals	582 530	524 612
	21 790 736	**15 [redacted] 472**

43. Fair value adjustments

Investment property (Fair value model)	208 670	210 684

Thembelihle Local Municipality
(Registration number NC076)
Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

Figures in Rand	2020	2019

44. Cash generated from operations

Deficit	(29 551 254)	(4 038 605)
Adjustments for:		
Depreciation and amortisation	15 836 736	17 034 662
Gain (loss) on sale of assets and liabilities	35 719	142 557
Fair value adjustments	(208 670)	(210 684)
Debt impairment	8 461 564	[redacted] 824 367
Actuarial cost	(321 254)	(607 960)
Movements in provisions	2 867 198	524 985
Adjustment to employee benefit obligations	649 157	689 843
Adjustments to long service awards	293 517	252 936
Changes in working capital:		
Inventories	2 184	(18 963)
Receivables from exchange transactions	(8 794 707)	(9 489 171)
Consumer debtors	23 197	34 406
Receivables from non-exchange transactions	(304 301)	(252 250)
Employee benefits	200 466	842 419
Payables from exchange transactions	17 795 280	13 649 384
VAT	6 256 079	(2 435 966)
Unspent conditional grants and receipts	(3 510 737)	3 737 648
Third party collections	113 843	499 968
Contributions paid to Long Service Awards	(498 593)	(34 280)
Contributions paid to Employee Benefit Obligations	(55 582)	(52 149)
	9 289 842	**29 093 147**

45. Other revenue

Commissions received	1 060 523	186 688
Other income - (rollup)	146 106	768 459
Connection Fees	17 683	46 994
	1 224 312	**1 002 141**

46. Auditors' remuneration

Fees	4 816 204	3 385 936

Fees paid consists of the following:		
External audit fees	4 291 819	3 051 993
Consulting - Internal audit fees	524 385	333 943
	4 816 204	**[redacted] 385 936**

47. Financial instruments disclosure

Categories of financial instruments

[redacted]

Financial assets

	At cost	Total
Trade and other receivables from exchange transactions	3 522 163	3 522 163
Other receivables from non-exchange transactions	2 321 084	2 321 084
Cash and cash equivalents	37 013	37 013
Othe receivables	595 416	595 416
	6 475 676	**6 475 676**

. Financial instruments disclosure (continued)

Financial liabilities

	At amortised cost	At cost	Total
Finance leases	2 492 628	-	2 492 628
Loans payable	2 903 053	-	2 903 053
Trade and other payables	-	109 644 201	109 644 201
Third party collections	-	744 454	744 454
	5 395 681	**110 388 655**	**115 784 336**

2019

Financial assets

	At cost	Total
Trade and other receivables from exchange transactions	3 472 560	3 472 560
Other receivables from non-exchange transactions	2 041 559	2 041 559
Cash and cash equivalents	4 352 317	4 352 317
Other Receivable	595 416	595 416
	10 461 852	**10 461 852**

Financial liabilities

	At amortised cost	At cost	Total
Finance leases	3 247 396	-	3 247 396
Loans payable	3 463 930	-	3 463 930
Trade and other payables from exchange transactions	-	91 673 233	91 673 233
Third party collections	-	630 611	630 611
	6 711 326	**92 303 844**	**99 015 170**

48. Commitments

Authorised capital expenditure

	2020	2019
Already contracted for but not provided for		
• Property, plant and equipment	11 774 339	14 232 501
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	18 254 740	20 912 962
Total capital commitments		
Already contracted for but not provided for	11 774 339	14 232 501
Not yet contracted for and authorised by accounting officer	18 254 740	20 912 962
	[redacted] 029 079	**35 145 463**

Total commitments

	2020	2019
Total commitments		
Authorised capital expenditure	30 029 079	35 145 463

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources, government grants, funds internally generated, etc.

49. Contingencies

Contingent Liabilities

The municipality has a license for using a landfill site in Hopetown. This landfill site has reached the end of its useful life and having reached its maximum capacity, the area around the landfill site has been used to temporarily accommodate the waste whilst the municipality is seeking an alternate means to address the challenge.

Due to the dumping of waste outside of the boundary of the landfill site, there may be fines and penalties imposed on the municipality as a result of the transgression. The financial impact of the obligation cannot be measured with sufficient reliability at the financial reporting date.

Contingent assets

No contingent assets have been identified.

Notes to the Financial Statements

Figures in Rand	2020	2019

50. Related parties

Relationships

Accounting Officer	The accounting officer had no interest in contracts
Council	MR Jack - None R Shuping - None S Marufu - Tlosaleuba Consulting services TR Oliphant - Groman Productions and Dlovu Logisctics and Pro Productions B Mpamba - Thembelihle bricks PM Naude - None HL Britz - Oranjerivier Sekuriteit (Deregistration process) and Hartland slaghuis Hope town B Tshangela - Thembelihle Agriultural J Tallies - Jumba Business solutions (Deregistration process) S Swartling - None R Ngxabazi - None

Related party balances

	2020	2019
Accounts included in Trade and Receivables regarding related parties		
Mpamba [redacted]	57 342	47 677
Tshangela [redacted]	1 152	955
Naude PM	23 850	15 783
Swartling [redacted]	1 298	22
Britz HL	219	-
Jack MR	1 906	-
Shuping R	412	-
Marufu S	411	-
Oliphant TR	7 623	-

	2020	2019
Rent received from related parties		
Graham LE	7 203	6 759
Esterhuizen EE	706	461
Molusi TC	13 554	12 691
Marufu F	33 645	31 692
Jafta P	[redacted] 675	5 890
Links J	460	300
Goaya R	9 636	9 056
Shuping R	4 961	3 307
Jack MR	20 116	17 866

Related party transactions

	2020	2019
Compensation to accounting officer and other key management		
Accounting Officer - MR Jack	1 170 325	1 140 387
Corporate Service Director - M Makena (Acting 01 Oct 2018 - 30 June 2019) (01 July 2019 - 31 August 2019)	19 082	459 931
Corporate Service Director - VJ Mpamba (Acting 31 July 2018 - 30 September 2018)	-	636 185
Corporate Service Director - TR Oliphant (Appointed 1 September 2019)	807 517	-
Chief Financial Officer - R Shuping (Appointed 03 December 2018)	867 562	520 843
Chief Financial Officer - N Jaxa (Acting 01 Aug 2018 - 30 Nov 2018	-	11 607
Chief Financial Officer - JT Oliphant (Acting July 2018 - September 2018)	-	5 971
Technical Service Director - A Marufu	854 062	856 364
Mayor - B Mpamba	889 722	859 922
	4 [redacted] 270	**4 491 210**

Figures in Rand	2020	2019

50. Related parties (continued)

Compensation to councillors		
[redacted] Swartling	371 767	340 605
B Tshangela	371 767	354 951
J Tallies	371 767	359 176
R Ngxabazi	413 448	399 186
H Britz	349 407	365 340
P Naude	329 166	318 290
	[redacted] 207 322	**2 137 548**

51. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2020

	Note	As previously reported	Correction of error	Restated
Property, Plant and Equipment	11	241 804 468	[redacted] 326 859	250 131 327
Investment Property		21 279 048	(412 039)	20 867 009
Third Party Collections		(130 643)	(499 968)	(630 611)
		262 952 873	**7 414 852**	**270 367 725**

Statement of finanical performance

2020

	Note	As previously reported	Correction of error	Restated
Depreciation	38&11	(17 029 270)	(5 392)	(17 034 662)
Licence and permits		(638 674)	576 594	(62 080)
Commission recieved		110 061	76 627	186 688
General expenditure - Project maintenance cost		(4 428 504)	3 116 477	(1 312 027)
Surplus for the year		**(21 [redacted] 387)**	**[redacted] 764 306**	**(18 222 081)**

Errors

A number of accounts were re-stated in the comparative amounts of the financial statements due to prior period errors. Where applicable, the corrections and/or changes were adjusted retrospectively, unless otherwise stated.

The following prior period errors adjustments occurred:

Notes to the Financial Statements

Figures in Rand	2020	2019

51. Prior-year adjustments (continued)

Error 1

Property, Plant and Equipment

During the update of the 2020 Fixed Asset register, errors were identified in the comparitive amounts. This resulted in ■ decreases of cost of PPE amounting to R1 303 011, decrease in accumulated depreciation amounting to R472 811 and decrease in impairment amounting to R76 624.

Impairment

During the annual asset verification, it was determined that certain movable assets and structures are to be impaired as they are broken and cannot be used. The recoverable amount or recoverable service amount of the assets was based on its fair value less cost to sell or its value in use.

Error ■

Third party Collections

Prior year balance was not updated due to an ongoing dispute with the Department Safety and Liason, this dispute was resolved and the balance is now updated to reflect the confirmation from the Department Safety and Liason from R130 643 to R630 611.

52. Risk management

Financial risk management

The municipality's activities expose it to ■ variety of financial risks: market risk (fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the council and the finance committee which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risks by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuasly monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Municipality also gets funding from National and Provincial government which helps to ease the pressure of any liquidity crisis.

The municipality's risk to liquidity is ■ result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

52. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the policy. Trade Receivables are presented net of an allowance for impairment.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2020	2019
Receivable from exchange transaction	3 522 163	3 472 560
Receivable from non-exchange transaction	2 321 084	2 041 559
Other receivables	595 416	595 416

Market risk

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2020 and 2019, the municipality's borrowings at variable rate were denominated in the Rand.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms	10,00 %	5 843 247	-	-	-	-
Other receivables	- %	595 416	-	-	-	-
Cash in current banking institutions	- %	37 013	-	-	-	-
Trade and other payables - Extended credit terms	- %	109 644 201	-	-	-	-
Loan from DBSA	- %	767 827	2 135 226	-	-	-
Finance leases	- %	817 192	1 675 436	-	-	-
Third party collections	- %	744 454	-	-	-	-

53. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 140 169 771 and that the municipality's total assets exceed its liabilities by R 140 169 771. In the current financial year, the municipality had an operating deficit of R29 551 254.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

53. Going concern (continued)

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality. The municipality currently relies on grants received from National and Provincial government.

;The following matters have been considered relating to the going concern:

- Council approved the budget for the 2018/19 to 2020/21 budget. This three year Medium Term Revenue and Expenditure Framework (MTREF), which supports the ongoing delivery of municipal services to residents reflected that the budget, was backed over the three year period.

- The municipality's budget is subjected to a very rigorous independent assessment process to assess its cash backing status before it is ultimately approved by council.

- Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cashflow forecast supporting the budget. The cash management process is complemented by monthly reporting, highlighting the actual cash position, including associated risks and remedial actions to be instituted.

- As the municipality has power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services.

- A strategy has been developed to improve debt collections on outstanding accounts. The policy will be strictly applied by handing over outstanding accounts, cutting off of services such as electricity and restricting water flows. The Municipality will also be implementing a blacklisting strategy where long outstanding debtors will be blacklisted. Distribution losses are also being inspected on a monthly bases for electricity and water, procedures to be implemented by management to improve The percentage loss month on month and finding alternatives.

'- The current ratio, also referred to as the operating capital ratio in municipalities, is a financial ratio that measures whether or not the institution has enough resources to pay its debts within the next 12 months. The current ratio is thus an indication of an institution's ability to meet short-term obligations. Acceptable current ratios vary from industry to industry. Swanevelder (1991: 193) determined the current ratios of municipalities to be 1.98 : 1. If a municipality's current assets are in this range, then it is generally considered to have good short-term financial strength. If current liabilities exceed current assets (and the current ratio is below 1), then the institution may have problems meeting its short-term obligations. If the current ratio is too high, the institution may not be efficiently utilising its current assets (Swanevelder 2005: 73). The calculated ratio of the municipality is 0.14 : 1, which is below the acceptable range.

- The acid-test or quick ratio:Swanevelder (1991: 193) determined an acid test ratio of between 105.6% (or 1.06 : 1) and 282.4% (or 2.82 : 1) for a sample group of municipalities in 1991. The fact that the keeping of inventory is not part of a municipality's major activities is noticeable in this relatively high ratio. The calculated ratio of t he municipality is 0.14 : 1, which is below the acceptable range.

- The solvency ratio: The solvency of a municipality is best expressed by the debt ratio (Scott 2001: 148). This ratio compares the total assets with total liabilities, and it shows the ability of an authority to meet its obligations in the long term. A ratio of less than one is an indication of insolvency. An acceptable ratio is 1 : 1. The calculated ratio of the municipality is 2 : 1, which is above the acceptable range

- All creditors are not paid within the required 30 days.

54. Events after the reporting date

President Cyril Ramaphosa on 15 March declared a national state of disaster in terms of the Disaster Management Act. The president announced that the government is taking 'urgent and drastic measures to manage the disease, protect the people of our country and reduce the impact of the virus on our society and on our economy'. In his second address, on 23 March, the President announced a national lockdown, initially for 21 days, and outlined more stringent interventions in a comprehensive plan to limit transmission of the virus and to mitigate its economic and social impact. Since the initial lockdown was announced, the lockdown has been ongoing following a risk-adjusted strategy which seeks to slow down the rate of infection and flatten the curve.
The factor outlined above has had a significant impact on the operations of the municipality. In terms of the regulations only exempted services were allowed to operate and other services was until recently not allowed to open to the public. This will adversely impact the collection of fees from visitors and consumers. The impact of the lockdown is not determinable. Further to this, grant funding to the INEP Grant has been decreased for the 2020/2021 financial year by R5 000 000. The Municipality received an amount of R60 000 as a conditional grant to assist in the combat of the Covid 19 Pandemic in the 2019/2020 FY
Due to the closure of other services that were not permitted to operate during this period, savings are expected on operational cost, the saving cannot be determined as of date of publishing the financial statements, due to the fluctuation in operating expenses based on staff and operational activities. It is expected that the saving would be in line with the reduction in government grants.
Due to the nature of the business, the impact of the lockdown is not deemed a risk to the going concern of Thembelihle Local Municipality.

55. Unauthorised expenditure

Opening balance	122 121 742	87 769 503
Add: Unauthorised - Current year	33 788 554	-
Add: Correction of prior period error (Unauthorised expenditure not included in the prior year)	-	34 352 239
	155 910 296	**122 121 742**

56. Fruitless and wasteful expenditure

Opening balance	30 000 065	22 518 467
Add: Fruitless and wastefull expenditure - Current year	7 729 633	7 481 598
	37 729 698	**30 000 065**

Interest charges on overdue accounts: The Municipality was charged for interest on outstanding accounts. A register containing the information required by the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Eskom	7 154 420	7 395 656
Auditor General	280 518	36 540
Other Creditors	294 695	48 486
	7 729 633	**7 480 682**

57. Irregular expenditure

Opening balance	133 683 484	112 865 460
Add: Irregular Expenditure - current year	7 168 191	15 019 986
Add: Correction of prior period error (Restated) - Irregular Expenditure identified in 2018/2019 relating to 2017/2018	-	5 798 038
Add: Correction of prior period error - Irregular Expenditure identified in 2019/2020 relating to 2018/2019	11 349 330	-
	152 201 005	**133 683 484**

Notes to the Financial Statements

57. Irregular expenditure (continued)

Analysis of expenditure awaiting condonation per age classification

Current year	7 168 191	15 019 986
Irregular Expenditure identified in 2018/2019 relating to 2017/2018	-	5 798 038
Irregular Expenditure identified in 2019/2020 relating to 2018/2019	11 349 330	-
	18 517 521	**20 818 024**

58. Deviations

Current year	1 228 634	3 244 779

59. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	2 114 880	554 898
Current year subscription / fee	3 675 197	3 476 057
Amount paid - current year	(2 222 724)	(1 916 075)
Closing Balance	**3 567 353**	**2 114 880**

PAYE and UIF

Opening balance	(193)	(193)
Current year subscription / fee	4 565 038	4 129 431
Amount paid - current year	(4 565 038)	(4 129 431)
Closing Balance	**(193)**	**(193)**

Pension and Medical Aid Deductions

Opening balance	(25 150)	(25 150)
Current year subscription / fee	6 659 076	6 160 324
Amount paid - current year	(6 659 076)	(6 160 324)
	(25 150)	**(25 150)**

VAT

VAT receivable	3 182 341	9 438 420

VAT output payables and VAT input receivables are shown in note .

60. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	2 903 053	3 463 930

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

Notes to the Financial Statements

Figures in Rand

61. Distribution Losses - Water

Water		
Water units available for sale (Kl)	1 724 478	1 755 113
Water units sold (Kl)	(553 565)	(599 509)
Water units lost (Kl)	1 170 913	1 148 624
Avearge cost per unit(R)	8	8
Total loss in Rand Value	9 306 336	9 129 186

Distribution losses relates to unaccounted water distributed. The foregoing costs, which represents 68% (2019: 66%) of the water purchases for the year, has been included in bulk purchases. The average cost per unit was R 8.37 (2019: R 7.95). The level of the distribution losses are not within the acceptable norms.

62. Distribution Losses - Electricity

Electricity		
Electricity units bought (Kwh)	9 444 332	13 009 372
Electricity units sold (Kwh)	(6 575 300)	(7 122 766)
Electricity units lost (Kwh)	2 869 032	5 886 606
Highest electricity rate	3	2
Total loss in Rand value	7 545 553	14 127 854

Distribution losses relates to unaccounted electricity distributions. This cost mainly arises from, inter alia, illegal connections to the electricity network and bridging of meters by consumers. The foregoings costs, which represented 30% (2019: 45%) of the electricity purchases for the year, has been included in bulk purchases. The highest rate was R2.63 (2019: R2.40). The level of the distribution losses are not within the acceptable norms.